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FEDERAL COMMUNICATIONS COMMISSION  
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AUG 18 1997

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of

Access Charge Reform

Price Cap Performance Review  
for Local Exchange Carriers

Transport Rate Structure  
and Pricing

Usage of the Public Switched  
Network by Information Service  
and Internet Access Providers

CC Docket No. 96-262

CC Docket No. 94-1

CC Docket No. 91-213

CC Docket No. 96-263

**CONSOLIDATED COMMENTS OF THE  
AD HOC TELECOMMUNICATIONS USERS COMMITTEE  
ON PETITIONS FOR RECONSIDERATION**

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## **SUMMARY**

The Commission should reconsider its decision that marketing expenses may be recovered only through charges on multi-line business and non-primary residential lines. Instead, such expenses should be recovered by all lines, in the same manner as non-traffic-sensitive ("NTS") loop costs. Non-primary residential lines and multi-line business lines already recover more than the costs associated with them; to burden them with the recovery of additional unrelated costs would violate principles of cost causation and the goal of making subsidies explicit. The Ad Hoc Telecommunications Users Committee (the "Ad Hoc Committee") supports the position of the United States Telephone Association ("USTA") in this regard.

The Ad Hoc Committee concurs with the Petitions for Reconsideration of the Telecommunications Resellers Association ("TRA") and the Competitive Telecommunications Association ("CompTel") that the multi-line business PICC has been set at economically irrational levels, because it is designed to recover costs unrelated to multi-line business lines. The Committee disagrees, however, with CompTel's recommendation that the multi-line PICC be eliminated altogether and with TRA's recommendation that the multi-line PICC should be reduced by imposing competitively neutral, usage-based charges.

The purpose of the redesigned SLC and PICC is to recover traffic-sensitive costs through traffic-sensitive charges and NTS costs through NTS charges. TRA's recommendation runs directly contrary to this principle. The Ad Hoc Committee proposes instead that multi-line PICCs (both business and

residential) be reduced by introducing the full single-line residential and business PICCs immediately, rather than phasing them in. This approach should help to address CompTel's concern that the multi-line business PICC will become a "dumping ground" for costs that are not recovered elsewhere, particularly during the period in which the single-line residential and business PICC is phased in and the multi-line PICCs will be recovering even more unrelated costs than usual.

Finally, the Committee endorses the arguments of the International Communications Association ("ICA") and USTA that the PICC should be applied using a line-to-trunk equivalency ratio or on the basis of Network Access Registers to avoid disproportionately burdening subscribers to Centrex services (relative to PBX customers) with the recovery of costs unrelated to the costs of their lines.

## TABLE OF CONTENTS

	<u>Page</u>
SUMMARY.....	ii
INTRODUCTION.....	1
I. RETAIL MARKETING EXPENSES SHOULD BE RECOVERED FROM ALL LINES, NOT JUST NON-PRIMARY RESIDENTIAL AND MULTI-LINE BUSINESS LINES .....	3
II. THE MULTI-LINE BUSINESS PICC SHOULD BE REDUCED BY INTRODUCING THE FULL PRIMARY RESIDENTIAL AND SMALL BUSINESS PICCS IMMEDIATELY .....	5
A. The Multi-line Business PICC Should Not Be Reduced by Imposing Usage-Based Charges .....	6
B. The Commission Should Implement the Full Single-Line Business and Residential PICC Immediately, Rather Than Eliminating the Multi-Line Business PICC.....	7
III. THE PRESUBSCRIBED INTEREXCHANGE CARRIER CHARGE SHOULD BE APPLIED USING A LINE-TO-TRUNK EQUIVALENCY RATIO, OR NETWORK ACCESS REGISTERS, TO AVOID DISPROPORTIONATELY DISADVANTAGING USERS OF CENTREX SERVICES .....	9
CONCLUSION.....	11

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AD HOC TELECOMMUNICATIONS USERS COMMITTEE  
ON PETITIONS FOR RECONSIDERATION**

The Ad Hoc Telecommunications Users Committee (the "Ad Hoc Committee") submits these Comments on the Petitions for Reconsideration of the *Access Reform* Order<sup>1</sup> filed by the United States Telephone Association ("USTA"), the Telecommunications Resellers Association ("TRA"), the Competitive Telecommunications Association ("CompTel"), and the International Communications Association ("ICA").

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<sup>1</sup> *Access Charge Reform*, First Report and Order, CC Dkt. No. 96-262, FCC 97-158 (released May 16, 1997) ("Order").

In the *Access Reform* Order, the Commission reconfigured the rate structure for switched access charges with the “primary goal” of recovering traffic-sensitive costs through traffic-sensitive charges and non-traffic sensitive (“NTS”) costs through flat-rated charges.<sup>2</sup> To this end, the Commission ordered that interstate common line revenues be recovered from a combination of subscriber line charges (“SLCs”)<sup>3</sup> and a new charge, the “primary interexchange carrier charge” (“PICC”).<sup>4</sup> Like the SLC, the PICC was designed to be applied differently to different types of services, *i.e.*, there are separate PICCs for single-line business and primary residential lines, for non-primary residential lines, and for multi-line business lines (the latter two categories referred to as the “multi-line PICCs”). The single-line PICC will be phased in over several years, and the multi-line PICC will be used to recover any shortfall in common line revenues that may result from the phase-in.<sup>5</sup> Thus, during the transition period, the business multi-line SLC and PICC will recover revenues greater than the actual common line costs attributable to business lines.

The Order explicitly directs that “price cap LECs may recover the revenues related to the Account 6610 marketing expenses removed from these baskets by increasing the SLCs for multi-line business and non-primary

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<sup>2</sup> Order at ¶ 53.

<sup>3</sup> *Id.* at ¶ 55.

<sup>4</sup> *Id.*

<sup>5</sup> *Id.* at ¶ 56.

residential lines.”<sup>6</sup> Rather than creating a mechanism that would recover these expenses entirely from end users, however, the Order specifies that, to the extent the SLC ceilings established by the Order prevent full recovery of these expenses, the price cap LECs can recover the excess costs by “increasing equally both the non-primary residential line PICC and the multi-line business PICC,” subject to the ceilings on those charges.<sup>7</sup> Finally, any residual still remaining can be recovered through per-minute charges applied first to originating access service, then to terminating access service.<sup>8</sup>

Several petitioners, including USTA, TRA, and CompTel, have argued that the multi-line PICCs present significant problems.

I. RETAIL MARKETING EXPENSES SHOULD BE RECOVERED FROM ALL LINES, NOT JUST NON-PRIMARY RESIDENTIAL AND MULTI-LINE BUSINESS LINES.

USTA has asked the Commission to reconsider its decision on the recovery of retail marketing expenses so as to require that such expenses be recovered from all lines, not just non-primary residential and multi-line business lines.<sup>9</sup> USTA argues that the Order appears to preclude recovery of marketing

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<sup>6</sup> Order at ¶ 324.

<sup>7</sup> *Id.*

<sup>8</sup> *Id.*

<sup>9</sup> United States Telephone Association Petition for Reconsideration and/or Clarification, CC Dkt. No. 96-262 (filed July 11, 1997) at 6 (“USTA Petition”).

expenses from single-line residence and single-line business customers,<sup>10</sup> an assertion supported by the FCC's conclusion that

the most efficient and cost-causative method legally available to this Commission at this time for recovery of price cap LEC retail marketing costs allocated to the interstate jurisdiction is to charge those end users to whom the price cap LECs' marketing is directed – multi-line business and non-primary residential line end users.<sup>11</sup>

The Commission cited no evidence to support its conclusion that LEC retail marketing is directed almost exclusively at multi-line businesses and non-primary residential lines. Indeed, contrary to the Commission's unsupported conclusions, in a competitive market for telecommunications services, local exchange carriers will almost certainly market their services to small businesses and to consumers of primary residential lines at least as intensively as to consumers of other telecommunications services. Because Account 6610 marketing expenses are incurred selling all types of subscriber lines, it is most appropriate to recover those expenses from all subscriber lines.

USTA has identified a legitimate problem, and the Ad Hoc Committee supports both USTA's position that recovery of marketing expenses should be more equitable and USTA's proposed method of recovery of those costs. USTA takes the position that Account 6610 marketing expense should be divided by SLC count to determine a per-line charge, but that recovery of this per-line

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<sup>10</sup> *Id.*

<sup>11</sup> Order at ¶ 321.



charge should be subject to the existing SLC caps.<sup>12</sup> Marketing expenses would thus be treated essentially like NTS loop costs, and any marketing expenses that are not recovered through the SLC because of the existing caps would be recovered by the PICCs, and, if still not recovered, would be recovered by the originating, and (ultimately) terminating, switched access rates, under the Order.<sup>13</sup> The only difference from the Order is that under USTA's proposal, multi-line businesses and non-primary residential lines would not continue to be burdened with expenses associated with single-line residence and business services once the single-line PICC (business and residence) transition plan is complete. The Ad Hoc Committee supports adoption of this element of USTA's proposal.

**II. THE MULTI-LINE BUSINESS PICC SHOULD BE REDUCED BY INTRODUCING THE FULL PRIMARY RESIDENTIAL AND SMALL BUSINESS PICCS IMMEDIATELY.**

The petitions of TRA and CompTel point out that the multi-line PICCs have been designed to recover costs far in excess of those caused by multi-line users, and this will be the case at least until the full primary residential and small business PICC is phased in. Using the multi-line PICCs to absorb costs that rightfully should be recovered elsewhere, even temporarily, is neither economically sound nor equitable to multi-line users.

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<sup>12</sup> USTA Petition at 8.

<sup>13</sup> *Id.* and Order at ¶ 324.

A. The Multi-line Business PICC Should Not Be Reduced by Imposing Usage-Based Charges.

TRA argues that, as described in the Order, the PICC is "discriminatory, squarely at odds with the principles of cost-causation articulated by the Commission, and constitutes the very type of implicit subsidy the Congress directed the Commission to eliminate."<sup>14</sup> The solution TRA proposes, however, is no improvement from an economic standpoint.

TRA maintains that the multi-line business PICC should be held at the level of the single-line business and residential PICC,<sup>15</sup> and that the differential between the current and revised multi-line business PICC should be recovered "through usage-based rates applied in a competitively-neutral manner."<sup>16</sup> TRA's proposal should be rejected.

The very purpose of the redesigned SLC and PICC is to recover "traffic-sensitive costs . . . through traffic-sensitive charges and NTS costs . . . through flat-rate charges, wherever appropriate."<sup>17</sup> Reinstating a usage-based rate for recovering these non-traffic sensitive charges would undermine this very sound economic principle. The Ad Hoc Committee urges the Commission to reject TRA's proposal to undo the first steps that have been accomplished in the *Access Reform* proceeding.

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<sup>14</sup> Petition for Reconsideration of Telecommunications Resellers Association, CC Dkt. No. 96-262 (filed July 11, 1997) at 7 ("TRA Petition").

<sup>15</sup> *Id.* at 6.

<sup>16</sup> *Id.* at 12.

<sup>17</sup> Order at ¶ 53.

Rather than reducing the business multi-line PICC to the level of the primary line PICC, and making up the difference through increased usage-based rates, the Ad Hoc Committee proposes that the multi-line PICCs be reduced by introducing the full primary residential and small business PICCs immediately, rather than over time. Ad Hoc's approach would allow for recovery of NTS costs through NTS charges to the customer classes responsible for those costs.<sup>18</sup> There is no persuasive evidence in the record of this proceeding that increasing the single-line residential and small business PICCs would jeopardize affordability of telephone service or universal service.

B. The Commission Should Implement the Full Single-Line Business and Residential PICC Immediately, Rather Than Eliminating the Multi-Line Business PICC.

CompTel states that the multi-line business PICC represents a pure subsidy created to justify lower charges for other customers, with no basis in cost-causation,<sup>19</sup> and that it should be eliminated.<sup>20</sup> CompTel further argues that the multi-line PICC will create dramatic and immediate cost increases for carriers serving low-volume multi-line business customers.<sup>21</sup> These carriers stand to lose

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<sup>18</sup> Alternatively, the caps on the primary line (business and residence) PICC could be raised to the level necessary to allow recovery of the revenues presently slated to be recovered through the multi-line PICCs.

<sup>19</sup> Expedited Petition for Reconsideration of Competitive Telecommunications Association, CC Dkt. No. 96-262 (filed July 11, 1997) at i, 3 ("CompTel Petition").

<sup>20</sup> *Id.* at 6. CompTel alternatively argues that the FCC should devise a new, short-term recovery mechanism that is competitively neutral and does not discriminate against low-volume small business customers. *Id.* The Ad Hoc Committee does not concur with this proposal.

<sup>21</sup> *Id.* at 3 and Attachment 1.

many of their customers to other, larger, carriers that can better absorb the effects of the PICC. Indeed, CompTel concludes that many such small carriers will likely be forced out of the market soon after the PICC is implemented.<sup>22</sup>

The Ad Hoc Committee shares CompTel's concerns that the multi-line PICC may evolve into a "dumping ground" for miscellaneous residual charges not recovered elsewhere<sup>23</sup> -- charges that, while non-traffic sensitive in nature, are not in any causal manner related to the provision of multi-line service.<sup>24</sup> CompTel's proposed solution, however, is not the answer.

The Ad Hoc Committee urges the Commission to reject CompTel's proposal to eliminate the multi-line business PICC altogether.<sup>25</sup> Either the transitional plan should be left intact, or, the Order should be modified in a manner that ensures that, from the outset, PICCs are applied in an equitable and fair manner to all switched access lines, including primary and non-primary residential, and single- and multi-line business lines. With its cap raised to \$9.00, the business multi-line SLC is sufficient to recover all NTS costs associated with the provision of multi-line business service for all but the highest

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<sup>22</sup> *Id.* at 4.

<sup>23</sup> To the extent that the Commission determines that other NTS, business-line-related costs are not adequately recovered through the SLC, the Ad Hoc Committee concurs that such costs might appropriately be included in the multi-line business PICC. As discussed previously in these Comments, however, in the case of marketing expenses, the multi-line PICCs are being required to recover a share of costs not caused by multi-line business or non-primary residential lines.

<sup>24</sup> Recovery of all marketing expenses, even those related to the marketing of single-line residential and business services, from multi-line business and non-primary lines is a perfect example of this.

<sup>25</sup> CompTel Petition at 6.

cost areas. It is doubtful that a multi-line PICC of any level would be required but for the slow transition to the full single-line residential and business PICC.

Recovery of single-line residential and business line NTS costs from multi-line customers during the initial years of the PICC transition, while superior to recovery of those costs through traffic-sensitive charges, is not the optimal solution.

Rather than adopting the proposals advocated by TRA and CompTel, the Commission should reconsider whether the full PICCs for single-line business and residential customers should be implemented immediately, rather than phasing them in over a period of several years. Such a solution would avoid the non-economic pricing signals that the present plan will inevitably create, while advancing the Order's objective of establishing rates based on actual costs of service.

III. THE PRESUBSCRIBED INTEREXCHANGE CARRIER CHARGE SHOULD BE APPLIED USING A LINE-TO-TRUNK EQUIVALENCY RATIO, OR NETWORK ACCESS REGISTERS, TO AVOID DISPROPORTIONATELY DISADVANTAGING USERS OF CENTREX SERVICES.

The Ad Hoc Committee endorses the arguments of ICA and USTA that the Commission should reconsider its decision to impose the PICC on the same per-line basis as the SLC,<sup>26</sup> and instead that it should apply the PICC to Centrex

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<sup>26</sup>

See rule to be codified at 47 C.F.R. Section 69.153.

lines using a line-to-trunk equivalency ratio or on the basis of Network Access Registers rather than station lines.<sup>27</sup>

Centrex customers generally use one loop for each working Centrex telephone number to receive service from a LEC's central office. In contrast, private branch exchange ("PBX") customers are connected to central office switches using trunks, thereby enabling PBX customers to concentrate usage from multiple station lines to a few trunks. If the PICC is imposed on a per-line basis, Centrex customers will bear a much greater share of the burden than comparably sized PBX customers for recovery of the total costs for which multi-line subscribers are responsible.

For example, as USTA has explained, a Centrex customer with 70 lines is comparable to a PBX customer with 13 trunks. The IXC serving the Centrex customer would be assessed \$192.50 per month (assuming a monthly PICC of \$2.75), while the IXC serving the PBX customer would be assessed only \$35.75 per month.<sup>28</sup> An IXC serving a 25,000-line Centrex customer would be assessed a monthly PICC of \$6,875, while the IXC serving a comparably-sized PBX customer would incur a monthly PICC of only \$409.75.<sup>29</sup>

Such a disparity is not technology-neutral. It will undermine the efficiencies available to Centrex customers and create serious market

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<sup>27</sup> USTA Petition at 2-4; Petition of the International Communications Association for Reconsideration, CC Dkt. No. 96-262 (filed July 11, 1997).

<sup>28</sup> USTA Petition at 3.

<sup>29</sup> *Id.*

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distortions. Moreover, application of the PICC on a per-line basis to Centrex customers violates principles of cost causation because the revenues it will generate are unrelated to the cost of the facilities to which the charge is applied.

These problems can be avoided by use of line-to-trunk equivalency ratios, which, according to USTA, are already set forth in intrastate tariffs.<sup>30</sup> Where they are not, the LECs should be required to develop and publish such ratios. In the alternative, PICCs should be applied to Centrex customers on the basis of Network Access Registers ("NARs") since one NAR provides one link to the switch, and thereby furnishes a comparable assessment measure for Centrex customers and PBX customers.<sup>31</sup>

### CONCLUSION

For the foregoing reasons, the Commission should reconsider and clarify the indicated portions of the *Access Charge Order* so as to require that (1) retail marketing expenses be recovered from all lines, not just non-primary residential and multi-line business lines; (2) the full single-line business and residential PICC be implemented immediately; and (3) the PICC be applied using a line-to-

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<sup>30</sup> *Id.* at 4.

<sup>31</sup> *Id.*

trunk equivalency ratio, or network access registers, to avoid disproportionately disadvantaging users of Centrex services.

Respectfully submitted,

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### **Certificate of Service**

I, Kurt A. Kaiser, hereby certify that true and correct copies of the preceding Consolidated Comments of the Ad Hoc Telecommunications Users Committee on Petitions for Reconsideration in CC Dkt. No. 96-262, were served this 18<sup>th</sup> day of August, 1997 via hand delivery to the Secretary's Office of the Federal Communications Commission and upon the following:

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